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THE MARINE CORPS STOCK FUND

JAMES F. CONLON

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NAVY GRADUATE COMPTROLLERSHIP PROGRAM

THE MARINE CORPS STOCK FUND

by

James F. Conlon
Captain, United States Marine Corps

Prepared for
Dr. A. Rex Johnson
School of Government
The George Washington University

[illegible]
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PREFACE

My study of the Marine Corps Stock Fund was stimulated by my need to acquire a general knowledge of the operation.

In developing the subject, data from manuals, directives, and laws have been presented which set forth the basic theory and operation of the Fund. Details of the accounting system and of budget construction have not been covered because of the evolution and changes involved.

It has been necessary to call upon many people at Headquarters, Marine Corps for basic references and material. Each has been most generous with his time and assistance. I express my gratitude especially to the following: Lt. Col. Brooks, Major Stansberry, and Mr. Bordelon of the General Accounting Branch of the Material Division; and Major Vrable, Mr. West, and Mr. Machino of the Stores Accounts Management Office.

CHAPTER I

INTRODUCTION

A stock fund is a type of working-capital fund established to finance the acquisition of materials and supplies for sale within the military departments. It is different from other public funds in that in theory at least its existence is perpetual.

The stock fund principle can be compared to the normal operations of a merchandising organization. The proprietor of a business uses invested funds (capital) to purchase goods which are resold at a profit. The income from such sales is then used to purchase additional merchandise, thus continuing the process or cycle.

A stock fund is the application of the merchandising cycle to the supply function of the military departments with the exception of profits. More specifically, the stock fund is an operational and financial device employed by the military services to facilitate financial control over consumable supply items for which there is a recurring demand. The stock fund mechanism permits the handling of inventories of continuous demand items on a replacement basis, much as private distributors replace stocks depleted by sales with new stocks purchased with

the proceeds from such sales.[1]

The universal employment of the stock fund concept in the military departments finds its origin in Title IV of the National Security Act, which stated:[2]

> "In order more effectively to control and account for the cost of programs and work performed in the Department of Defense, the Secretary of Defense is authorized to require the establishment of working-capital funds in the Department of Defense for the purpose of: (1) financing inventories of such stores, supplies, materials and equipment as he may designate....."

Although the passage of the Act publicized the stock fund concept as a means of control in military financing and required all departments of the military establishment to utilize this method, the basic principles of a working capital fund were not new. A Congressional Act of March 3, 1893, directed that the sum of $200,000 be carried to the credit of a permanent Naval Supply Fund.[3] The greatly expanded Naval Supply Fund, presently known as the Navy Stock Fund, is the forerunner and format of the existing military stock funds.

The establishment of stock funds was based on a requirement for businesslike management and financial efficiency within

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[1] "Marine Corps Stock Fund, Prepared by the Supply Department, U.S. Marine Corps" (Washington: Headquarters, Marine Corps, n.d.), p. 2.

[2] U.S. Congress, 81st Congress, 1st Sess. National Security Act Amendments of 1949. Public Law 216 (Washington: Government Printing Office, 1949).

[3] 41 Statutes 1169.

the military departments. The purposes of a stock fund may therefore be listed as:[4]

1. To provide a simplified means for consolidating management, financing, control, and accounting for the procurement of materials which are chargeable to a number of consuming activities when the items are issued.

2. To facilitate improved control of consumption of material through budgeting, financing and accounting.

3. To provide a means for financing the acquisition and holding of stocks which would simplify appropriation accounting and give greater financial flexibility in these operations than is available by any other means.

The stock fund form of inventory control, although used by the Navy since 1893, was not utilized by the other military departments prior to the enactment of "Title IV" in 1949. The management of the Navy Stock Fund was available for guidance and reference, but the initial establishment of a stock fund in each of the other military departments offered its own distinct problems. Differences in organizational structure, missions, and material and equipment used each caused its own problems which could only be solved by the experience and study of the personnel who were required to operate the various funds.

The following chapters are devoted to outlining and

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[4]Department of Defense Directive 7420.1, "Regulations Governing Stock Fund Operations," (Washington: Department of Defense, December 19, 1956), p. 2.

discussing the establishment and operation of one such fund, the Marine Corps Stock Fund.

CHAPTER II

CONCEPTION AND OPERATION

The passage of "Title IV" of the National Security Act as amended in 1949 required that a thorough evaluation of the financial management structure in the Marine Corps be conducted and changes instituted where necessary. Due to the Korean War, the changes required to establish such a stock fund were not attempted nor was a study initiated immediately. However, on September 26, 1952, the Secretary of the Navy directed that immediate action be taken to establish a Marine Corps Stock Fund. He further required that this fund be operational by July 1, 1953, if at all feasible.

The full installation of such a fund was in itself a tremendous job, but the time limitation, less than nine months from the initial directive until operations were scheduled to commence, only multiplied the odds against success. The fact that the deadline was met is a credit to those who participated in the initial design, organization, and installation of the Fund.

In setting up policies and procedures for the installation of such a fund the basic tasks included:[5]

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[5] R. B. Farrally, "Review and Summation of Marine Corps Stock Fund Management," Armed Forces Management, Vol. I (March 6, 1955), p. 8.

1. The design, development and installation of a financial reporting system for inventories.

2. The selection, pricing and cataloging of items to be financed under the fund.

3. The development of a financial plan which would project the requirements for cash and inventories to be capitalized.

4. The development and implementation of a system for charging customers and reimbursing the fund.

5. The development of accounting systems and procedures.

6. The development of a charter.

7. The promulgation of the necessary directives and manuals for use in the field and in the education of personnel.

The efforts of the task force appointed to study the problems progressed with such satisfaction that on March 17, 1953, a charter was recommended and forwarded to the Secretary of the Navy for approval. The principles set forth in the Charter included that:[6]

1. Operations would commence effective July 1, 1953.

2. Administration and management of the Fund would be under the direction of the Quartermaster General of the Marine Corps.

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[6]"Charter for the Marine Corps Stock Fund," Marine Corps Stores Accounting Manual, (Washington: Department of the Navy, 1954), pp. ii-iv.

3. The functions and responsibilities of the Quartermaster General were to include:

a. Obtaining maximum use of the fund capital with minimum stock levels.

b. Formulating and establishing operating procedures.

c. Price computation, cataloging, and price list promulgation.

d. Management of acquisition, storage, control and distribution of inventories.

e. Maintenance of accounts and records.

f. Preparation of reports and statements.

4. The items encompassed by the Fund would include all inventories designated in the categories of individual clothing, subsistence, electronics, engineer, general supply, motor transport, and ordnance and that stratification of these categories would be accomplished.

5. The following establishments would be included:

a. All Marine Corps Depots.

b. Marine Corps Schools, Quantico, Virginia

c. All Marine Corps Air Stations in continental United States.

d. For individual clothing only, all regular Marine Corps units not on combat accountability.

6. The initial capitalization should include cash,

inventories on hand, and on order and liabilities in the form of a stock withdrawal credit to be based on the amount of approved budget requirements for stock fund issues in excess of available funds for Fiscal Year 1954.

The proposed Charter was approved by the Secretary of Defense on June 1, 1953, and on July 1, 1953, the Marine Corps Stock Fund officially commenced operations.

There is no disputing the fact that initial operations of the fund lacked refinement and that many years would pass before a really good system covering all the various aspects would be in force. But the fund had been created, and now it was just a matter of time. The remarkable success to date received recognition from the Congress and set a standard for the other Services to attain.[7]

The initial capitalization of the fund amounted to $316 million of which $40 million was in cash that had been transferred from unobligated balances of annual appropriations, and $276 million in inventories. A steady growth has been accomplished through the acquisition of an ever increasing number of supply items to stock fund control. Figure 1 illustrates the increase in terms of the quantity of items encompassed.

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[7] U.S. Congress, Senate, Preparedness Subcommittee No. 3 of the Committee on Armed Services, Implementation of Title IV National Security Act of 1947 as amended, Sen. Report 66, 83rd Cong., (Washington: Government Printing Office, 1954), p. 11.

As can be seen the number has grown from slightly over 34,000 in 1953, to in excess of 227,000 in 1957. As of June 30, 1957 the value of these inventories amounted to $313 million, and cash on hand amounted to $57 million.

By following a reinvestment policy which allowed sales to exceed obligation authority, stock level reductions in certain areas were obtained with the resulting effect that inventories were converted into cash and excesses were reduced. By June 30, 1957 the sum of $108 million had been returned by legislation to the Treasury or transferred to other appropriations. This exceeds by $68 million the cash originally received by transfer at the inception of the Fund.

The Quartermaster General of the Marine Corps manages and administers the Stock Fund with the advice and guidance of the Marine Corps Stock Fund Board. The Board, composed of key members of the Commandant's staff, effects an operational review of the fund and provides guidance as related to:[8]

1. Estimating income after consideration of the plans for operational forces, weapons, equipment, logistical and personnel programs.

2. Planned inventories in the light of planned consumer program requirements.

3. Planned procurement programs and inventory holdings in relation to priority assigned various programs.

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[8] Letter from the Commandant of the Marine Corps, January 8, 1957.

COMPARATIVE GROWTH OF THE MARINE CORPS STOCK FUND
BY THE QUANTITY OF ITEMS PER STOCK CATEGORY

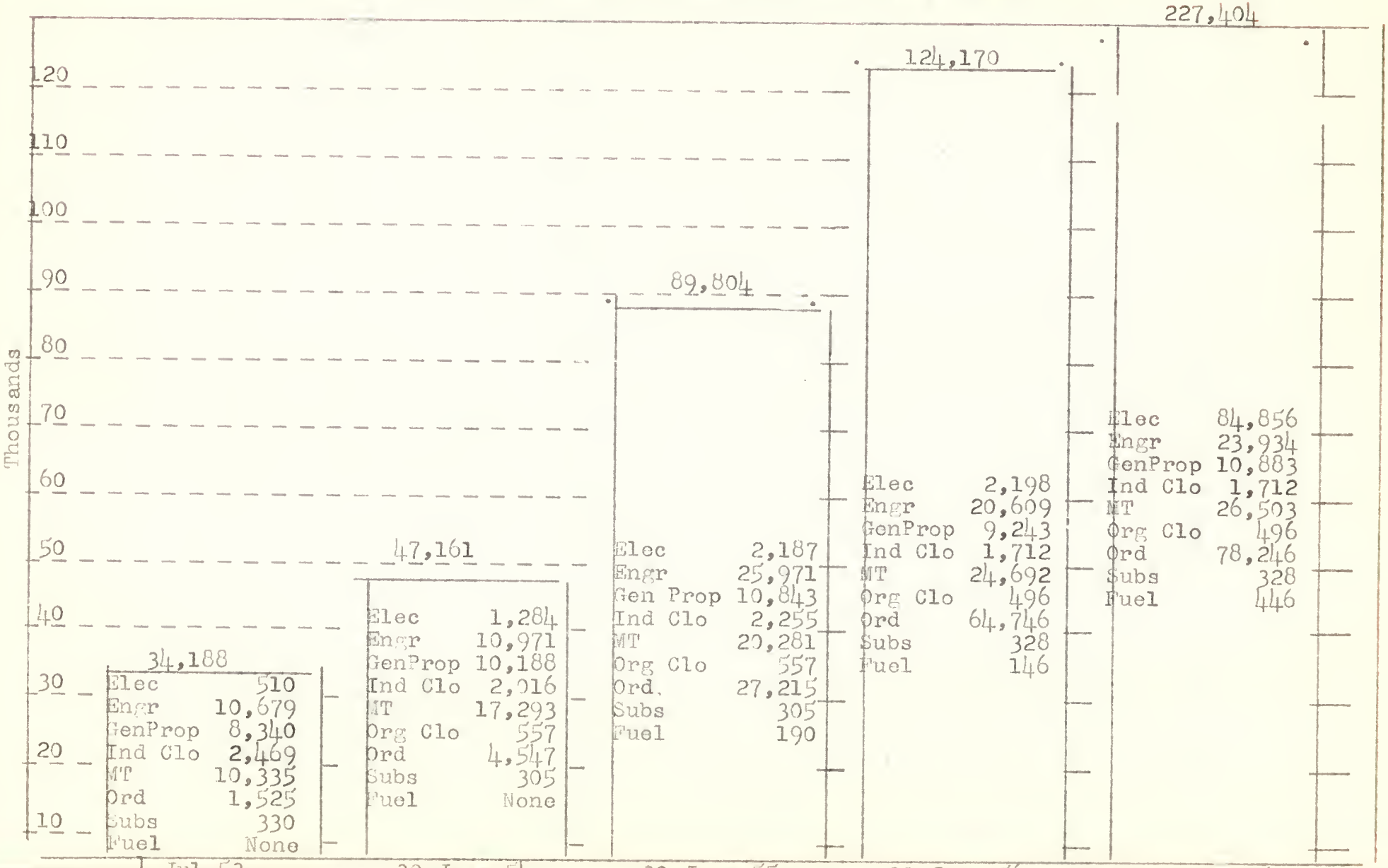

Fig. 1

Source: NAVMC 1096-SD, 1956

4. Planned mobilization reserves in relation to procurement capability and relative priority.

To assist the Quartermaster General in overall management and administration, a central office, known as the Stock Fund Management Section, was established to control and coordinate major segments of the fund. Subdivisions of the Management Section, termed Supply and Inventory Control Points, are responsible for the complete management of a particular commodity area within the Fund. Their responsibilities include the determination of requirements, procurement, stock control, distribution, and storage. These responsibilities are exercised through the receipt and evaluation of recurrent stock status and financial status reports. The reports reflect the Marine Corps-wide position for particular items and classes of material. At present there is one Control Point for each of the major commodity categories authorized for financing under the fund. These are Electronics, Engineering, General Property, Clothing, Motor Transport, Ordnance, Subsistence, and Fuel.

The Fund actually operates in a manner similiar to a large chain grocery store. Management, procurement and control are centralized at Headquarters, Marine Corps; the receipt, storage and issue of materials is decentralized to key points throughout the country. A "Self Service Center" has even been established within the system which basically parallels the

commercial-type supermarket.[9] Accounting and inventory reports received from the field activities are consolidated at Headquarters and are used as a basis for decisions and reports to higher authority.

In a manner similiar to the Navy Stock Fund, the basic principle of the Marine Corps Stock Fund operation encompasses a revolving cycle of procurement, storage and distribution. Common items of supply are purchased and stored in sufficient quantities to maintain stock levels at predetermined amounts. When required by the field activities, distribution is accomplished through established channels of supply to Marine Corps users. As these items are issued from inventory to use, the appropriation granted to the using function is charged and the cash capital of the Stock Fund is reimbursed. By this method, new credit is generated for another cycle.

Within the system are maintained stocks of consumable materials, minor items of equipment, and parts and components used in the manufacture or maintenance of end items in the Marine Corps supply system. Inventories include electronic parts; engineering material and parts; general property; clothing and textiles, both individual and organizational; motor transport parts and minor items of equipment; ordnance in the form of explosives and in parts for ordnance equipment; non-perishable subsistance items;

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[9] Annual Report of the Marine Corps Stock Fund for the Fiscal Year 1957, (Washington: Headquarters, Marine Corps, 1957), p. 4.

and fuel.

The key locations established to act as receiving, storage and issuing points, the "selling outlets" for the Fund, are:

Marine Corps Supply Activity, Philadelphia, Pennsylvania.
Recruit Depot, San Diego, California
Recruit Depot, Parris Island, South Carolina
Supply Forwarding Annex, Portsmouth, Virginia
Supply Forwarding Annex, San Francisco, Calif.
Supply Center, Albany, Georgia
Supply Center, Barstow, California
Base, Camp Pendleton, California
Base, Camp Lejeune, North Carolina
Schools, Quantico, Virginia.

Sales at standard prices are made by the above activities to authorized customers on a reimbursable basis. That is, the purchasing activity "pays" for the items by citing the appropriation available from which a transfer of funds is made. These transfers are accomplished at Headquarters, Marine Corps by the Fiscal Division. The total monetary values of all requisitions received is computed and used as the basis for debiting and crediting the proper appropriations.

Standard prices have been established for each item carried in the Stock Fund. Each standard price has its basis in current replacement costs.

The standard price is developed from current replacement cost to which are added two surcharges; one to offset first destination transportation costs, and another to recover all foreseeable net losses and authorized expenses. The procedure for arriving at a standard price differs somewhat from commercial

practice in that only certain specific direct expenses are allowed or authorized. Administrative cost, depreciation, and certain overhead costs are not used in computing the standard price.

Standard price lists containing the current "selling" price of stock fund items are published and distributed to the field activities to be used in determining the "purchase" price of materials requisitioned.

Regional standard pricing and Marine Corps-wide single standard pricing were both considered for certain material categories and it was determined that the latter was more desirable, both administratively and in the development of financial reports for management, including performance budget data. By basing the sales on a standard price rather than market cost or some other method, the Fund will recover upon sale or issue the amount in dollars required to replace the item in inventory and thus preserve the integrity of the Fund in the sense that it is self-perpetuating in terms of physical and quantitative corpus. In addition, standard pricing promotes uniformity throughout the system, as well as accuracy and simplicity in accounting and inventory control functions.

CHAPTER III

FINANCIAL REPORTING AND CONTROL

Throughout the laws, directives and regulations pertaining to working-capital and stock funds, the terms "business-like" management and "commercial-type" operations are used repeatedly. A closer study of the Fund reveals that in many ways the financial structure and the control methods utilized are similiar to comparable civilian merchandising operations, but in many other ways the operation of the Fund is of necessity different or at least modified. These differences for the most part are required because of the public or governmental nature of the funds. Regulations concerning reports, reviews and specific transactions each have their effect in causing the stock fund's financial and accounting policies and procedures to differ slightly from those established as generally accepted for a merchandising operation.

The published reports of the Fund are similiar in appearance to their counterparts in commercial businesses, but because of the unusual nature of various transactions the sub-titles and accounts of some of the statements may require some explanation. It is the purpose of this chapter to discuss the controls and reports currently required and to give some explanation in those areas where deviation from commercial practice is pronounced.

Several basic principles of internal control are not

only used but are required as a prerequisite to a satisfactory system of stock fund financial accounting. The commercial nature of these principles is a good indication of the degree to which businesslike "tools" are being utilized. By regulation the following minimum requirements must be observed and their application is subject to a "comprehensive-type" audit by the General Accounting Office:[10]

1. All stock transactions must be summarized in financial terms not less frequently than monthly and all supporting documents must be available for reference and audit.

2. A physical inventory of all stock must be taken not less than once a year.

3. Detailed stock records must be maintained in support of all summary accounts.

4. At least annually, detail item records must be extended and compared with controlling accounts.

5. And as a basic control measure, financial accounts must be maintained by persons other than those having physical custody of stocks. Persons authorized to pay for goods received or who authorize withdrawal of stocks must also be separated from the record keeping function.

Because of the details involved, the discussion will exclude the accounting principles and practices employed in

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[10]Department of Defense Directive 7420.1, p. 23.

accumulating and classifying data and will center around the reports and controls used by higher authority to evaluate the overall operations of the Fund.

The Congress in placing the requirement in the law that, "Reports of the condition and operation of such funds (working capital and stock) shall be made annually to the President and to the Congress,"[11] reserved to itself the final right to evaluate the operations of the Fund. This annual report, comparable to the reports issued by corporations, not only allows for financial review and evaluation but gives the Congress a "measuring stick" with which to determine the success achieved from year to year in the way the fund management is complying with the intent of the law. In addition a semi-annual report of the same character is submitted to the Appropriations Committees of each House.

Prior to submission to the Congress all external reports are reviewed, audited and evaluated by the Secretary of the Navy, Secretary of Defense, Bureau of the Budget, and the General Accounting Office.

Quarterly reports to meet the requirements for overall financial review, for use in the preparation of reports to the Congress, and to facilitate financial control actions under the budget process are submitted to the Secretary of Defense.

And lastly, the reports on the status of appropriation

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[11]Public Law 216, sec. 405.

accounts submitted on a monthly basis to the Bureau of the Budget round out the continuing external control methods employed to check fund operations.

These external reports use narration, financial statements and graphic presentation to inform higher authority of the operations and readiness position of the fund as a unit and by each category of material individually.

The narrative section contained in the annual financial statements includes an analysis of significant financial results and trends, comments on management improvements and progress attained as well as information on corrective actions initiated or planned. The policies of the fund management concerning sales, financing and pricing are analyzed and evaluated in the light of current military and economic situations. The narration also includes a schedule of surcharge rates for losses for each major material category with an analysis of the factors affecting loss experience as may be appropriate for review of pricing.[12] The narrative submitted with quarterly reports are limited to analysis and evaluation of significant changes affecting the budgetary and cash requirements.

The following formats for these statements illustrates

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[12]Department of Defense Instruction 7420.6, "Financial Reports for Department of Defense Stock Funds," (Washington: Department of Defense, June 10, 1957), p. 1.

the types of transactions involved in stock fund accounting. Individual quarterly statements and a cumulative annual statement are submitted for each of the following:[13]

1. Statement of Financial Condition.
2. Summary of Changes in Principal of Fund.
3. Summary of Operating Changes in Capital.
4. Summary of Cash Sources and Application and Cash Budget.
5. Operating Budget.
6. Reimbursable Issues.
7. Status of Budget Authority.

The Statement of Financial Condition, Figure 2, should be familiar to anyone who has encountered commercial statements. The form and general content is similiar to a commercial balance sheet. This statement summarizes the assets, liabilities, and capital of the Stock Fund at the end of each quarterly period and at the beginning and end of the fiscal year.

The Summary of Changes in Principal of Fund, Figure 3, sets forth the changes in the principal of the stock fund for the reporting periods of the quarter and year to date. The cumulative column from inception to the reporting date is required only in the annual reports. The statement provides separate analysis of the balances and additions and deductions affecting the net

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[13]Ibid, p. 14.

changes in fund appropriation and capitalized inventories.

The Summary of Operating Changes in Capital, Figure 4, shows the operating additions and deductions affecting changes in capital for each administrative fund division for the quarter and year to date.

The summary of Cash Sources and Application and Cash Budgets, Figure 5, is cast essentially in the form of a statement of sources and application of funds in terms of cash rather than fund capital, with cash transactions shown separately as derived from appropriations and operations. The section on Operations is designed from the standpoint of commencing with revenues and expenditures on the accrual basis and converting such data to the cash basis by adjustments for changes in receivables, payables, progress payments, etc. The statement is primarily for operating management use in review of cash forecasts and in regulating the amount of cash required for allocation to the stock fund. It also provides for an analysis of changes in the Treasury cash balances.

The Operating Budget, Figure 6, provides the summary information for determining procurement requirements and obligational and commitment authority for each major material category. The general scheme for development of this budget is to relate the estimated material availability to the material requirement to derive the amount of material required to be actually received from procurement into the system. This amount is then reduced by

STATEMENT 1

(DEPARTMENT) STOCK FUND
STATEMENT OF FINANCIAL CONDITION
(DATE)

		Assets	CURRENT FISCAL YEAR		
			CURRENT DATE	ACTUAL JULY 1	ESTIMATED JUNE 30
1.		Cash:			
	a.	Funds available for disbursement			
	b.	Funds held in unallocated reserve			
	c.	Total available Treasury balance			
2.		Accounts receivable:			
	a.	Government agencies			
	b.	All other			
3.		Total accounts receivable			
4.		Inventories of materiel			
5.		Materiel to be received under obligations against procurement appropriations			
6.		Progress payments			
7.		Claims			
8.		Other assets:			
	a.	_____			
	b.	_____			
9.		Undistributed charges - net			
10.		Total assets			
		Liabillties			
11.		Accounts payable:			
	a.	Government agencies			
	b.	All other			
12.		Total accounts payable			
13.		Stock withdrawal credits			
14.		Other liabilities:			
	a.	_____			
	b.	_____			
15.		Total liabllities excluding Capital			
16.		Capital of the Fund:			
		Principal -			
	a.	Appropriations and reappropriations			
	b.	Capitalized inventories			
	c.	Accumulated operating results			
17.		Total liabilitles			
18.		Data on obligational authority:			
	a.	Contracts and orders outstanding			
	b.	Commitments outstanding			
	c.	Balance of budget authority for commitment			

Fig. 2

(DEPARTMENT) STOCK FUND
SUMMARY OF CHANGES IN PRINCIPAL OF FUND
(For the periods indicated)

Appropriations/Reappropriations	THIS PERIOD	YEAR TO DATE	FROM *(Date)* TO *(Date)*
1. Balance at beginning of period			
Changes during period:			
2. Direct appropriations			
3. Cash allocations to stock fund division			
4. Less cash returned to Treasury or reappropriated			
5. Less cash transfers to unallocated reserve			
6. Total			
7. Balance at end of period			
Capitalized Inventories			
8. Balance at beginning of period			
Changes during period:			
9. Inventories of materiel capitalized			
10. Materiel to be received under obligations against procurement appropriations			
11. Other receipts of materiel without charge			
12. Less stock withdrawal credits			
13. Less other issues of materiel without reimbursement			
14. Total			
15. Balance at end of period			

Fig. 3

(DEPARTMENT) STOCK FUND
SUMMARY OF OPERATING CHANGES IN CAPITAL
(For the periods indicated)

		THIS PERIOD	YEAR TO DATE
	Additions -		
1.	Revision of standard prices - net		
2.	Purchase cost variance - net		
3.	Surcharge for net losses		
4.	Surcharge for transportation costs		
5.	Price gain/loss on assembly/disassembly - net		
6.	Price discounts on reparable materiel		
7.	Net recoveries on sales of excess, surplus and scrap		
8.	Miscellaneous credits - net		
9.	Inventory adjustments - net		
10.	Total additions		
	Deductions -		
11.	Revision of standard prices - net		
12.	Purchase cost variance - net		
13.	Price gain/loss on assembly/disassembly - net		
14.	Standard price reductions on sales due to condition and serviceability		
15.	Standard price reductions on inter-service sales		
16.	Excess, surplus, or salvage materiel sold or disposed of *(except 7 and 17)* -		
a.	Considered for recovery in surcharges		
b.	Not considered for recovery in surcharges		
17.	Authorized donations of surplus materiel		
18.	Materiel written off due to shrinkage, fire, theft, unrecovered damages and shortages in transit		
19.	Inventory adjustments - net		
20.	Transportation costs		
21.	Repair costs		
22.	Miscellaneous charges - net		
23.	Total deductions		
24.	Net operating changes in capital during period		

Fig. 4

(DEPARTMENT) STOCK FUND
SUMMARY OF CASH SOURCES AND APPLICATION AND CASH BUDGETS FOR PERIODS INDICATED

(In thousands of dollars)

		ACTUAL PAST YEAR *(19PY)*	CURRENT FISCAL YEAR — ACTUAL TO DATE	CURRENT FISCAL YEAR — TOTAL — REVISED ESTIMATE	CURRENT FISCAL YEAR — TOTAL — ORIGINAL ESTIMATE	ESTIMATE BUDGET YEAR *(19BY)*
		1.	2.	3.	4.	5.
	Appropriations					
	Cash provided by:					
1.	Direct appropriations					
2.	Cash allocations to stock fund division					
3.	Total cash provided					
	Cash applied to:					
4.	Cash returned to Treasury or reappropriated					
5.	Cash transfers to unallocated reserve					
6.	Total cash applied					
7.	Cash provided less cash applied					
	Operations					
8.	Cash provided by revenues:					
a.	Reimbursable issues					
b.	Proceeds from sales of excess, surplus and salvage					
c.	Miscellaneous recoveries					
d.	Total revenues accrued					
e.	Accounts receivable decrease (+) or increase (-)					
f.	Total cash collections					
9.	Cash applied to expeditures:					
a.	Materiel procured					
b.	Reimbursement for returns					
c.	Transportation					
d.	Repairs					
e.	Miscellaneous					
f.	Total accrued expenditures					
g.	Accounts payable decrease (+) or increase (-)					
h.	Other liabilities decrease (+) or increase (-)					
i.	Progress payments increase (+) or decrease (-)					
j.	Undistributed charges - net					
k.	Total cash expenditures					
10.	Cash provided less cash applied					
11.	Net expenditures or *(receipts)*					
12.	Available Treasury balance at beginning of period					
13.	Available Treasury balance at end of period					

FIG. 5

material on order at the beginning of the period and increased by the estimated amount of material required to be on order at the end of the period in order to derive the total obligations for procurement requirements. Other obligations and total commitments outstanding at the end of the respective periods are then added to determine the total obligations and commitments.

The Statement of Reimbursable Issues, Figure 7, provides for showing the actual and forecasted sales for each major material category.

The Status of Budget Authority, Figure 8, sets forth the status of the obligation and commitment authority for the Stock Fund based on the operating budgets for each material category. It indicates the budget authority and limitation for each material category. The statement provides data with respect to obligations incurred for the period, amounts reserved for commitments and available balances.

The attainment of businesslike and efficient operations is ever fostered by the levels of review that are involved in this evaluation of operations. Annual, quarterly, and monthly reports are designed to keep higher authority informed so that decisions in the best interest of the Marine Corps, the Government and the Nation can be made in a timely and effective manner.

The internal reporting procedures of the Fund are utilized to generate the inventory and financial data necessary for management in compiling reports for higher authority, formulation and execution of the budget, control of apportioned funds,

DEPARTMENT STOCK FUND
OPERATING BUDGET
MAJOR MATERIEL CATEGORY
(DATE)

(In thousands of dollars)

		CURRENT FISCAL YEAR *(19CY)*			ESTIMATE BUDGET YEAR *(19BY)*
PAST YEAR *(19PY)*	ACTUAL TO DATE	ESTIMATE REMAINDER OF YEAR	TOTAL	
1	2	3	4	5

(DEPARTMENT) STOCK FUND
REIMBURSABLE ISSUES

(DATE)

(In thousands of dollars)

CUSTOMER	ACTUAL PAST YEAR (19PY)	CURRENT FISCAL YEAR (19CY)			ESTIMATE BUDGET YEAR (19BY)
		ACTUAL TO DATE	ESTIMATE REMAINDER OF YEAR	TOTAL	
	1.	2.	3.	4.	5.
This department:					
Fund or appropriation					
Other agencies of Department of Defense:					
Other Government agencies:					
All Other					
Total					

(DEPARTMENT) STOCK FUND
STATUS OF BUDGET AUTHORITY
FOR FISCAL YEAR TO (DATE)

CATEGORY	BUDGET AUTHORITY	ALLOTMENTS	OBLIGATIONS INCURRED	BALANCES			
				AVAILABLE FOR ALLOTMENT	UNOBLIGATED ALLOTMENTS		
					TOTAL	AVAILABLE FOR COMMITMENT	RESERVED FOR COMMITMENTS OUTSTANDING
1	2	3	4	5	6	7	8

Fig. 8

C71387

and control of inventories.

Stores accounting reports consisting of Stores Balance Sheet, Summary Supply Classification Report, and a Detail Supply Classification Report are prepared monthly by activity for each category of material. The reporting activities report the dollar value of the opening and closing inventories and the value of all transactions effecting increases and decreases to the inventory. The consolidated reports prepared at Headquarters are utilized in the making of stock control, budgetary and management decisions.

Stock status reports are made on an item basis for each of the major supply activities for all items of supply on which stock status information is required. Reportable information consists of quantities available for issue, expected receipts, outstanding obligations, replenishable demands, stock in transit, and non-replenishable issues. Effective June 30, 1955, the Marine Corps adopted exception type reporting on items included in the stock status reports. Now only once a year is a complete report covering the status of each item of the stock account submitted. In the interim, only those items having transaction activity are reported. All reports are summarized centrally into a Consolidated Stock Status Report monthly. This information is utilized to insure a proper supply and demand balance for each item, to support procurement decisions, and as a base for the stratification program.

Stratification is a detailed breakdown of inventories

designed to maintain levels of material readiness according to established policies. The stratification process requires that stock levels of each item of each material category be individually analyzed with respect to readiness position. The managers of the program by establishing priorities separate the money value of on hand and on order inventories into the following subdivisions:[14]

1. Peacetime Operating Stocks
2. Mobilization Reserve Stocks
    a. Active Forces
    b. Selected Reserve Forces
    c. General Reserves
3. Long Supply Stocks
    a. Economic Retention Stocks
    b. Contingency Retention Stocks
    c. Excess Stocks.

These subdivisions are designed to show the dollar value of inventory available to meet the requirements for peacetime and to support applicable strategic mobilization plans. The economic reserve, contingency reserve, and excess strata are also measured for determination of the amount of stocks available for sale without repurchase and for redistribution or disposal.

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[14] Supply Department Order 4440.2B (Washington: Department of the Navy, August 2, 1957), p. 2.

CHAPTER IV

BUDGETARY PROCESS

The ability of the Marine Corps to perform its mission during peace and mobilization and to maintain peacetime material readiness in anticipation of mobilization depends upon accurate determination of future requirements. Before spending money to acquire specific items serious study must be given to the amount which can be profitably spent, just how it should be spent, and what results can reasonably be expected. In order therefore to meet their responsibilities, the Marine Corps and particularily the managers of the Stock Fund must constantly improve the managerial tools for the direction and control of procurement funds. One such tool used in the stock fund is the commercial budget.

In a stock fund operation the fundamental purpose of the commercial budget is to ascertain the most profitable course to follow and to develope a balanced and coordinated program which will hold the fund to that course. Budgeting provides a valuable tool of control for without such planning inventories would very likely be out of proportion and invested funds wasted. When funds are received, they must be obligated in a manner which conforms to the policies and objectives of higher authority; they must be employed so that the greatest return is received

for each dollar invested.

The budget for a stock fund is always referred to as a commercial type budget. The use of this term leads people to think of the stock fund budget as separate and distinct from the traditional government budget. There is an implication that the stock fund budget is developed in a manner similiar to a commercial or business budget and without regard to regulations pertaining to other public funds. Nothing could be further from the truth.

The commercial budget is defined as a systematic method of predetermining attainable financial results from operations for a stated period and the financial position at the end of the period under given conditions. Normally the various commercial budgets have as their foundation a forecast or estimate of sales.

The traditional governmental budget can more accurately be defined as the justification and defense at various review levels of the estimated requirements of a given program or objective. Its foundation is the program to be accomplished or the service to be performed. In the operations of a stock fund both in principle are used.

In theory, budgeting as an estimating process which culminates in an appropriation request before Congress is required only when it is desired to augment the capital investment of the fund. Actual practice, however, requires that a "commercial-type" budget be submitted in the annual departmental budgets for each

year as prescribed in Budget Circular Number A-11.[15] This budget includes a description of proposed major financial policies and an explanation of any significant changes from existing policies. Because of the authority of reviewing echelons to withhold apportionment, restrict obligations and at times transfer funds back to the Treasury, this budget is in fact a justification and defense of the programs and objectives of the Stock Fund.

The concept of a commercial budget, as defined previously, finds its fulfillment in the published annual statements and in the quarterly and monthly reports required by management and the reviewing authorities within the Department of Defense and the Bureau of the Budget. Based on a sales forecast for the ensuing fiscal year beginning and ending inventories are determined; cash receipts, disbursements and balances are estimated; and procurement requirements can be projected which will reflect not only material requirements but necessary obligation authority as well.

Inability to distinguish between the areas encompassed by each concept in the budget documents leads to the practice of referring to all stock fund budgets as "commercial-type" budgets. Although in theory the fundamental concepts are different, the practical application of the information furnished by each is utilized to achieve the same ends, control and efficiency. Facts and figures obtained as a result of the sales forecast and other projections of the commercial budget are used to justify

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[15] Department of Defense Directive 7420.1, p. 28.

obligations and expenditures requested in the traditional budget. Obligation and expenditure authority granted as a result of the governmental type of budget are used to achieve the forecasts of the commercial budget.

The Stock Fund budget formulation includes determination of estimated requirements, costing, budget preparation, justification and defense at all review levels, and modification and resubmission required by the actions of reviewing echelons.[16]

The Secretary of the Navy in conjunction with the Commandant determines what the Marine Corps is expected to do in the budgetary period. These determinations are referred to as the program objectives of the Marine Corps, and are a part of the Department of the Navy program objectives for the period involved. Based upon the program objectives, the Commandant issues a guidance letter covering policy, missions, and level of operation for the budget period. The level of operation as stated in the Commandant's letter may be expressed in specific terms of personnel ceilings, work load, and operation schedules. The guidance letter is the basis upon which subordinate commands plan operations and submit budget estimates.

The preparation of the stock fund budget begins as soon as the guidance letter is received. The managers of the Supply Inventory Control Points compile and prepare the necessary budget

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[16] Budget Formulation and Administrative Control of Funds, Vol. III, Field Fiscal Accounting Series (Washington: Marine Corps Institute, 1955), p. 10.

information from: the recommendations of the Stock Fund Board, reports submitted by field activities, and available historical and statistical data.

Guidance concerning estimated sales, procurement programs and inventory requirements is furnished by the Marine Corps Stock Fund Board. The Board converts the tactical, technical, and operational policies of the guidance letter into material requirement terms.

Since the existance of the stock fund is dependent upon sales to field activities, the Appropriation requests or budget estimates of these organizations are analyzed to determine the volume of business that can be expected from these areas.

Historical data obtained from management reports and statistical studies are utilized to supplement and complete the estimates obtained from the aforementioned sources. In addition historical data are used as an indicator of sales to other government agencies, inventory losses, transportation costs and other stock fund costs and transactions.

The information amassed is converted into common terms (dollar) and assembled in the prescribed budgetary form as required by Defense Department regulations.[17] At this point what might be termed the technical or mechanical portion of the budget

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[17] D.O.D. Instruction 7420.6 lists and illustrates the various commercial-type budget forms, and D.O.D. Directive 7420.1 requires that budget forms as illustrated in Budget Circular No. A-11 also be submitted.

BUDGET FISCAL CYCLE

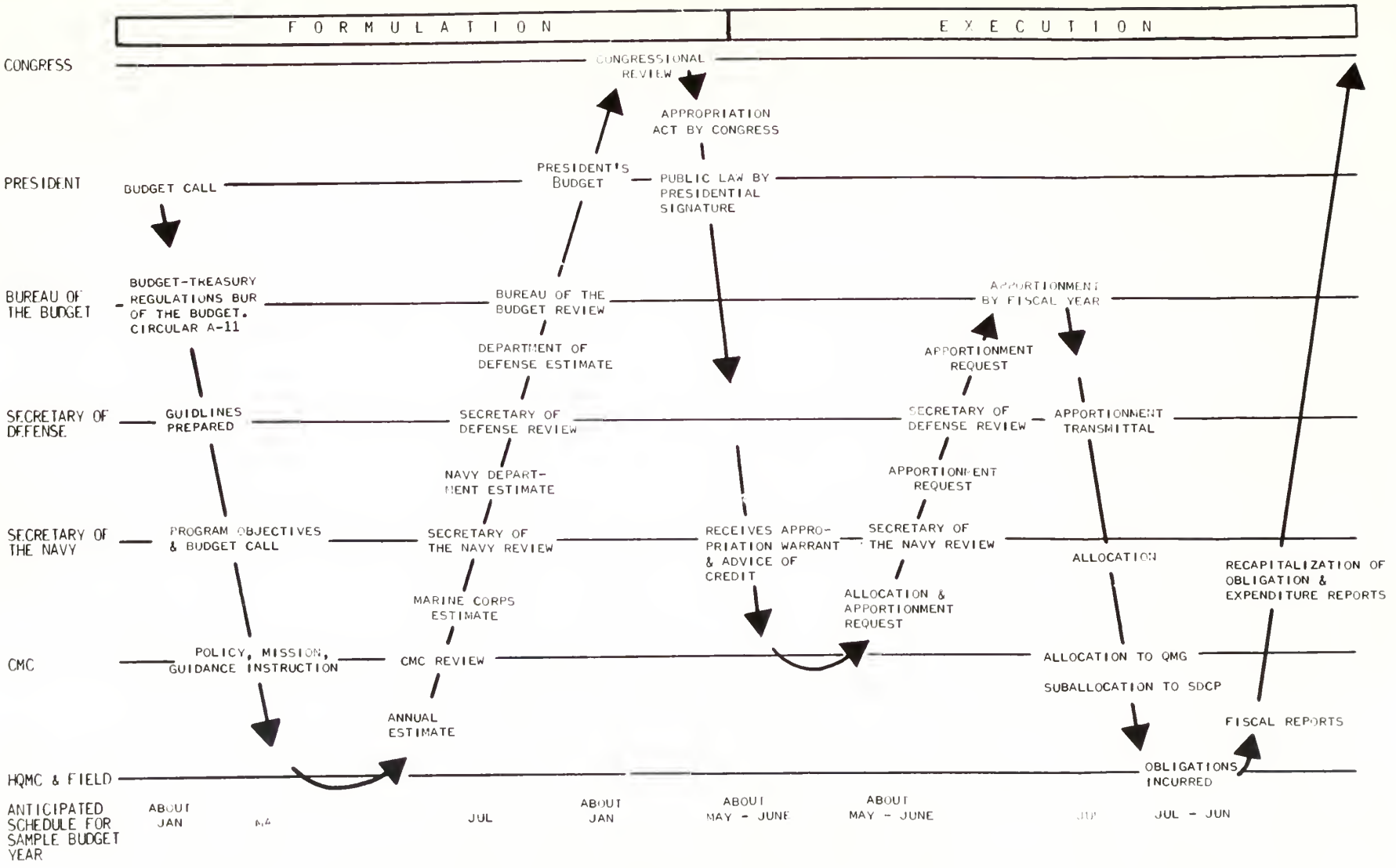

Fig. 9

The budget approved by the Commandant is submitted to the Secretary of the Navy who causes a staff review to be made of the estimates. The Commandant and his staff justify the budget before the reviewing staff of the Secretary. The budget estimates are returned to the Commandant by the Secretary for modification in accordance with the makr up recommended.

In those areas where the Commandant is in disagreement with the recommended mark up and feels there is sufficient justification for reconsideration, reclama is submitted to the Secretary of the Navy. After hearing the Commandant's justification and examining the back up material, the Secretary makes the final decision concerning the extent of the mark up.

The same procedure is followed at the Department of Defense level except that at this point the Marine Corps budget is considered in connection with the budget for the entire Navy.

Again at the Bureau of the Budget, the procedure is repeated with reclama at this point being submitted directly to the President. Figure 10, clearly illustrates how after each review, the budget is returned to the management control points so that new estimates can be prepared in accordance with the recommended mark up before resubmission is attempted. The effect of major decisions can be calculated and objectives and programs within the major material categories revised accordingly.

It must be realized that the signing of the Appropriation Act by the President does not make the money available for

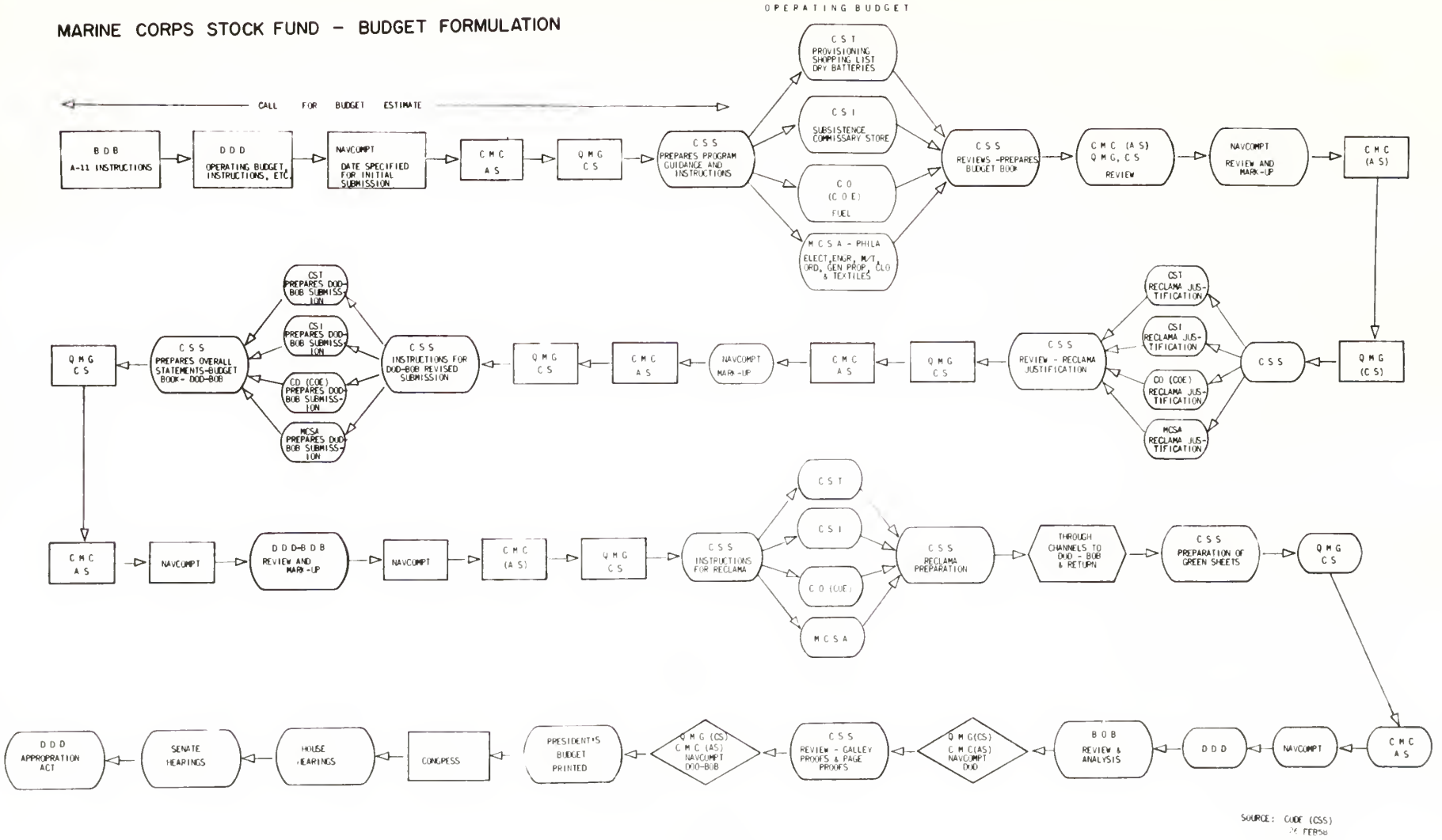
MARINE CORPS STOCK FUND - BUDGET FORMULATION
OPERATING BUDGET
CALL FOR BUDGET ESTIMATE
BOB A-11 INSTRUCTIONS
DOD OPERATING BUDGET INSTRUCTIONS, ETC.
NAVCOMPT DATE SPECIFIED FOR INITIAL SUBMISSION
CMC AS
QMG CS
CSS PREPARES PROGRAM GUIDANCE AND INSTRUCTIONS
CST PROVISIONING SHOPPING LIST DRY BATTERIES
CSI SUBSISTENCE COMMISSARY STORE
CO (COE) FUEL
MCSA - PHILA ELECT, ENGR, M/T, ORD, GEN PROP, CLO & TEXTILES
CSS REVIEWS -PREPARES BUDGET BOOK
CMC (AS) QMG, CS REVIEW
NAVCOMPT REVIEW AND MARK-UP
CMC (AS)
QMG (CS)
CSS
CST RECLAMA JUSTIFICATION
CSI RECLAMA JUSTIFICATION
CO (COE) RECLAMA JUSTIFICATION
MCSA RECLAMA JUSTIFICATION
CSS REVIEW - RECLAMA JUSTIFICATION
QMG CS
CMC AS
NAVCOMPT MARK-UP
QMG CS
CMC AS
CSS INSTRUCTIONS FOR DOD-BOB REVISED SUBMISSION
CST PREPARES DOD-BOB SUBMISSION
CSI PREPARES DOD-BOB SUBMISSION
CO (COE) PREPARES DOD-BOB SUBMISSION
MCSA PREPARES DOD-BOB SUBMISSION
CSS PREPARES OVERALL STATEMENTS-BUDGET BOOK - DOD-BOB
QMG CS
CMC AS
NAVCOMPT
DOD-BOB REVIEW AND MARK-UP
NAVCOMPT
CMC (AS)
QMG CS
CSS INSTRUCTIONS FOR RECLAMA
CST
CSI
CO (COE)
MCSA
CSS RECLAMA PREPARATION
THROUGH CHANNELS TO DOD - BOB & RETURN
CSS PREPARATION OF GREEN SHEETS
QMG CS
CMC AS
NAVCOMPT
DOD
BOB REVIEW & ANALYSIS
QMG(CS) CMC(AS) NAVCOMPT DOD
CSS REVIEW - GALLEY PROOFS & PAGE PROOFS
QMG (CS) CMC (AS) NAVCOMPT DOD-BOB
PRESIDENT'S BUDGET PRINTED
CONGRESS
HOUSE HEARINGS
SENATE HEARINGS
DOD APPROPRIATION ACT
SOURCE: CODE (CSS)

Fig. 10

use. Statutory authority alone is not enough. Administrative authority must also be obtained. This applies even to revolving funds already established.

An apportionment must first be secured. The Commandant secures apportionment by making a request in the prescribed form to the Bureau of the Budget, through channels (see Figure 11).[19] Apportionments requested are based on the approved plans and programs upon which the appropriation was granted, including approved changes thereto. Apportionments are requested for the whole fiscal year in such amounts as will support the varying requirements of each fiscal quarter. The apportionments may be approved on this basis or they may be approved only for the beginning quarter of the fiscal year. Both methods have been used in stock fund apportionment. Requests may be submitted at any time for changes in the apportionment deemed necessary to meet changing requirements.

Marine Corps requests for apportionment must be approved on their way to the Bureau of the Budget by the Secretary of the Navy and Navy Comptroller. Any or all three of these offices may hold hearings at which the Marine Corps must justify its apportionment requests.

Strange as it may seem the Marine Corps can not yet use the funds which Congress has appropriated and the Bureau of

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[19] Ibid.

MARINE CORPS STOCK FUND APPORTIONMENT PROCESS

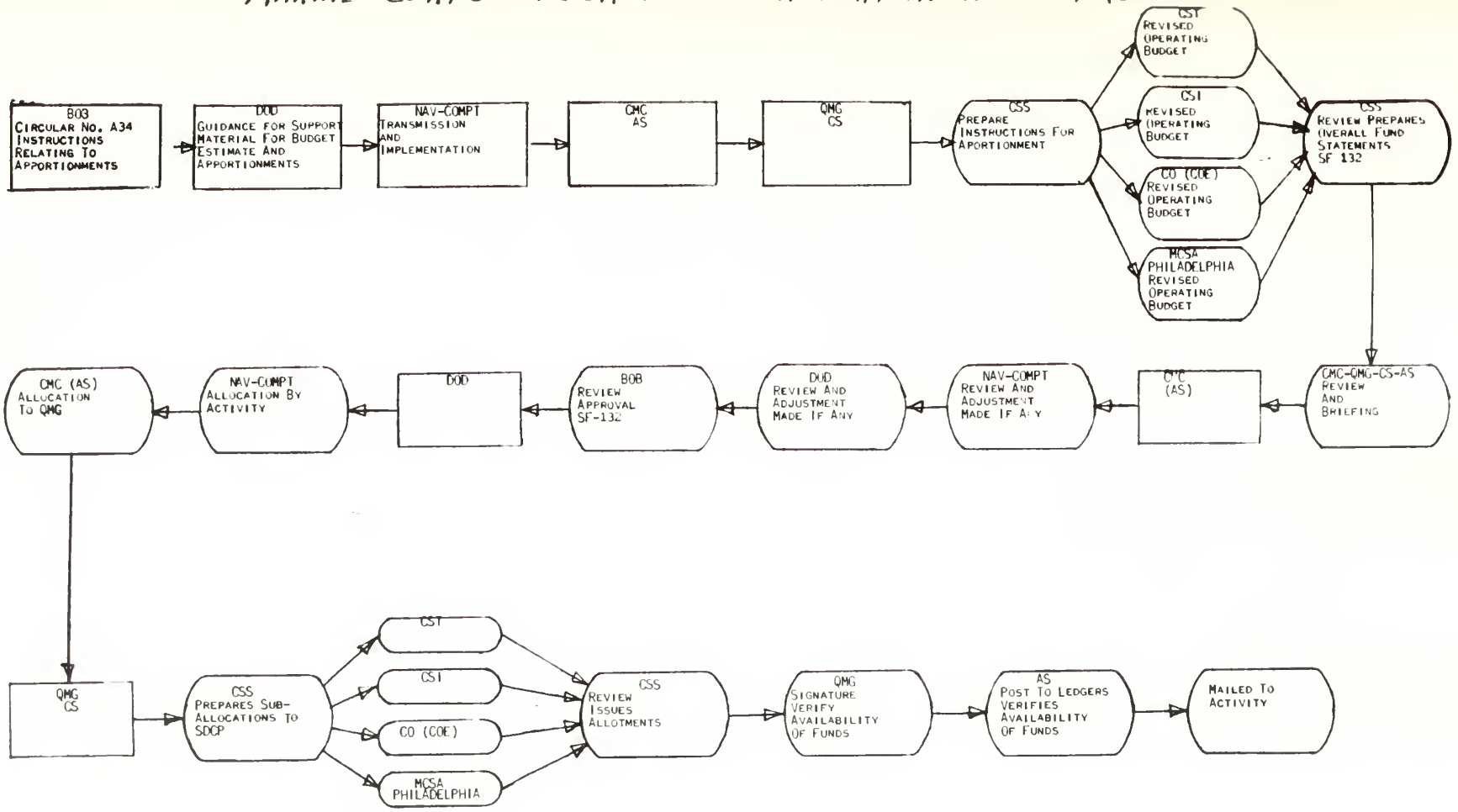

Fig. 11

the Budget has apportioned. The Commandant must submit a request and receive approval from the Comptroller of the Navy for an allocation of the approved apportionment. This request is based on the justifications submitted for apportionment and becomes the plan for financial control and management of the budget.

Budget execution is the carrying out of the approved budget or plan. It consists of: (1) the distribution of authority to obligate and expend funds. (2) Control to insure that funds are used as authorized. (3) Continual analysis and evaluation of the budget plan.

The distribution of obligational authority (see figure 12) extends from the Commandant through the Quartermaster General to the Supply Inventory Control Points and to the field activities. Funds at each level are obligated in accordance with individual budgets which have been constructed and modified if necessary to agree with the overall Stock Fund budget. Overall control is maintained at the Headquarters level through the use of the monthly and quarterly reports illustrated in Chapter 3. To insure that funds are not over obligated at any level, a monthly report on the status of appropriations is required by the Bureau of the Budget.[20] Flexibility is maintained by continuous evaluation of the operational needs of the Marine Corps by the Stock Fund Board. Changes in tactical requirements which affect material readiness are analyzed and reflected in modifications to the original budgetary plan.

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[20] Department of Defense Directive 7420.1, p. 33.

FLOW OF OBLIGATIONAL AUTHORITY

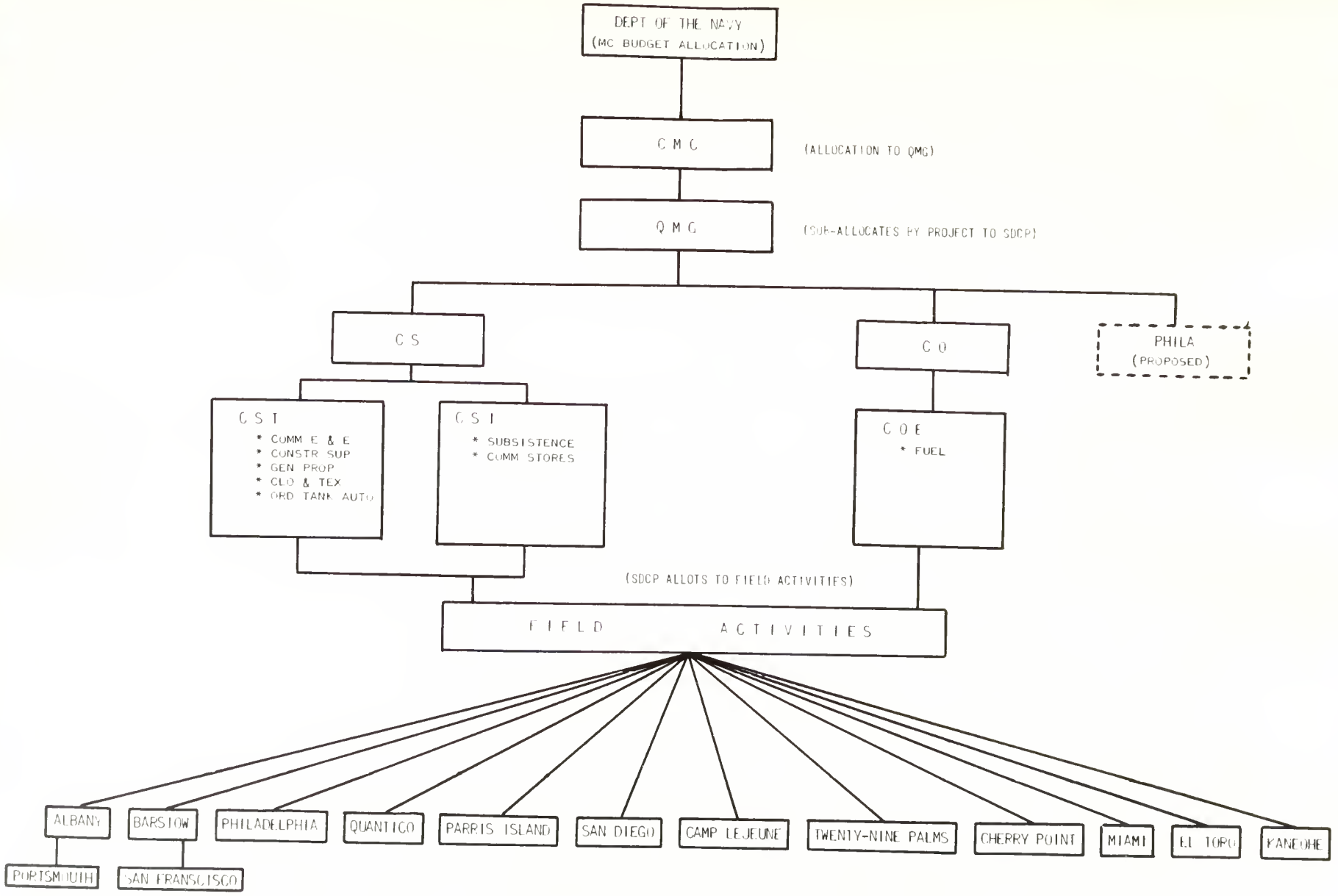

Fig. 12

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CHAPTER V

SUMMARY

The establishment of stock funds within the supply functions of the military services was required by the Congress in the hope that certain benefits in the fields of financial management, control, budgeting and accounting would accrue to the American people in terms of a more efficient operation and lower total costs.

In the case of the Marine Corps Stock Fund, this has in general been the result. The development, installation, and operation of the Fund could only be accomplished after a complete analysis and evaluation of the entire supply system. The knowledge obtained from this evaluation, coupled with the recommendations offered in other areas of financial management has generated a new philosophy concerning fiscal matters. New methods and procedures have been employed to support and cultivate these principles. Individual thinking has been stimulated to concentrate upon a more modern approach to the problems of management and control.

Admittedly the Fund is achieving its basic purpose, but before concluding, it might be desirable to reflect upon a few of the areas wherein the original purpose or objective has

not been satisfactorily achieved.

It is the purpose of the Fund to simplify appropriation accounting and give greater financial flexibility in the acquisition, holding and distribution of inventories through automatic replenishment of stock through reimbursement by the using activity.

As long as stock fund operations are subject to the apportionment process, this objective is impossible to achieve. Funds apportioned to date have been greatly under the amount requested, and because of the review system presently in use for apportionment and allocation, budgeting solely as a means to justify and defend the policies of the Fund management has become a year-around task.

It may be debated whether these actions are necessary in order to exhaust excess inventories and reduce stock levels to an acceptable amount. But it must be realized that the reduction of stock is not in itself efficient management. Slow moving and excess stocks could conceivably remain on hand while the reduction in apportioned funds caused mobilization reserves in the more active items to be deficient.

Continuation of the quarterly apportionment system might in addition hinder the Fund from achieving the advantages of favorable prices through timed purchases. Purchases of this type require detailed analysis and planning well in advance of delivery dates. Doubts as to the outcome at various review

levels reduces the effectiveness of these plans.

The incentive for limitation of inventory levels, better balanced inventories, and limitations of procurement of peacetime operating stocks through the control over financial resources of the Fund is greatly weakened. The investment level of the Fund is fundamentally controlled through the apportionment process and budget hearings. Detail reviews at each level confine and restrict the broad management control of the Quartermaster General. Management has been weakened due to the time consuming and detailed reviews incident to the apportionment process. These reviews defer firm planning of investment levels and create an air of skepticism in the mind of the field commander who is acutely aware, not only of the economy brought about through use of the Stock Fund device, but of the need to meet supply demands.

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